

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE EAST CASEY COUNTY)
WATER DISTRICT, A WATER DISTRICT ORGANIZED)
PURSUANT TO CHAPTER 74 OF THE KENTUCKY RE-)
VISED STATUTES, IN CASEY COUNTY, KENTUCKY,)
FOR (1) A CERTIFICATE OF PUBLIC CONVENIENCE)
AND NECESSITY, AUTHORIZING AND PERMITTING)
SAID WATER DISTRICT TO CONSTRUCT WATER)
DISTRIBUTION SYSTEM IMPROVEMENTS, CON-)
SISTING OF TREATMENT PLANT IMPROVEMENTS,)
AN ELEVATED STORAGE TANK, AND WATER TRANS-)
MISSION LINES; (2) APPROVAL OF THE PROPOSED)
PLAN OF FINANCING OF SAID PROJECT, AND (3))
APPROVAL OF INCREASED WATER RATES PROPOSED)
TO BE CHARGED BY THE DISTRICT TO ITS)
CUSTOMERS)

CASE NO.
9899

O R D E R

East Casey Water District ("East Casey") by application filed April 1, 1987, and revised during the proceedings in this matter, is seeking approval of adjustments to its water service rates, authorization to construct a \$1,027,000 waterworks improvement project and approval of its plan of financing for this project. The project funding includes a \$301,000 loan from the Farmers Home Administration ("FmHA"), a \$693,000 grant from the FmHA and \$33,000 from applicants for service in the proposed project area. The FmHA loan will be secured by waterworks revenue bonds maturing over a 40-year period at an interest rate of 5 percent per annum.

The proposed construction will provide service to approximately 220 additional customers. Drawings and specifications for the proposed improvements prepared by Kenvirons, Inc., of

Frankfort, Kentucky, ("Engineer") have been approved by the Division of Water of the Natural Resources and Environmental Protection Cabinet.

On June 9, 1987, the Commission Staff ("Staff") conducted a field review of East Casey's test period financial records and issued its report on August 5, 1987, containing Staff's recommendations. After careful review and examination of Staff's recommendations, the Commission is of the opinion that East Casey will have adequate cash flow to meet its obligations and provide for future equity growth. Therefore, the Commission affirms Staff's recommended, and East Casey's proposed, increase of \$13,491 over adjusted test-year revenues from rates of \$112,969.

CONTINUITY OF ADEQUATE AND RELIABLE SERVICE

The evidence indicates that reliable and adequate service can be maintained throughout the expanded system after completion of the proposed construction. However, there are several areas which could have residual pressure below 30 psig, in violation of 807 KAR 5:066, Section 6(1). In addition, there are several areas which could have pressure above 150 psig, in violation of 807 KAR 5:066, Section 6(1).

The Commission reminds East Casey of its obligation to provide adequate and reliable service to all of its customers. East Casey should monitor the adequacy of the expanded water distribution system after construction. If this monitoring indicates that the level of service is inadequate or declining, or the pressure to any customer is outside the requirements of 807

KAR 5:066, Section 6(1), East Casey must take necessary actions to maintain the level of service in conformance with the regulations of the Commission.

FIRE HYDRANT INSTALLATION

East Casey originally proposed installing 19 conventional fire hydrants as part of this construction project. These fire hydrant installations are not in compliance with Standard 24 of the National Fire Protection Association as adopted by 815 KAR 10:020 and the "Recommended Standards For Water Works" by the Great Lakes-Upper Mississippi River Board of State Sanitary Engineers as adopted by 401 KAR 6:200.

East Casey was requested by the Commission to document that the proposed conventional fire hydrants were capable of providing fire protection. The Engineer responded that the system was not designed for fire flows and that the fire hydrants should have been labeled as flush hydrants. The flush hydrants are to be utilized for maintenance purposes such as flushing lines. In a supplementary response the Engineer stated that below ground blow-off hydrants would be utilized as flush hydrants.

The Commission in good conscience cannot approve the installation of conventional fire hydrants that cannot provide fire protection in compliance with both state regulations and accepted engineering criteria. There are other pieces of water system equipment which can be used for the intended operation and maintenance procedures instead of fire hydrants. The installation of conventional fire hydrants may mislead the customers of East Casey

into believing that the water distribution system is capable of providing adequate and reliable volumes of water for fire protection purposes. The Commission accepts East Casey's proposal to install below ground blow-off hydrants instead of conventional fire hydrants.

RATE DESIGN

In its application East Casey proposed a schedule of rates and proposed to add 220 additional customers. In its report, Staff recommended that the rates proposed by East Casey be accepted. Therefore, the Commission is of the opinion that the rates in Appendix A will produce revenues sufficient to cover operating expenses and should be approved for services rendered.

FINDINGS AND ORDERS

The Commission, after consideration of the evidence of record, and being advised, is of the opinion and finds that:

1. With the appropriate monitoring of service system-wide, and the substitution of below ground blow-off hydrants for the proposed conventional fire hydrants, public convenience and necessity require that the construction proposed in the application be performed and that a certificate of public convenience and necessity be granted.

2. The proposed construction consists of approximately 22.6 miles of 8-, 6-, 4- and 3-inch diameter pipelines, a 100,000 gallon elevated water storage tank, and related appurtenances. The low bids totaled \$770,445 which will require about \$1,027,000 after allowances are made for fees, contingencies, and other indirect costs.

3. East Casey should monitor the adequacy of the expanded water distribution system after construction. If the level of service is inadequate or declining, or the pressure to any customer is outside the requirements of 807 KAR 5:066, Section 6(1), East Casey should take immediate action to maintain the level of service in conformance with the regulations of the Commission.

4. Any deviations from the construction herein approved which could adversely affect service to any customer should be done only with the prior approval of the Commission.

5. East Casey should obtain approval from the Commission prior to performing any additional construction not expressly certificated by this Order.

6. East Casey should furnish duly verified documentation of the total cost of this project including the cost of construction and all other capitalized costs (engineering, legal, administrative, etc.) within 60 days of the date that construction is substantially completed. Said construction costs should be classified into appropriate plant accounts in accordance with the Uniform System of Accounts for Water Utilities prescribed by the Commission.

7. East Casey's contract with its Engineer should require the provision of full-time resident inspection under the general supervision of a professional engineer with a Kentucky registration in civil or mechanical engineering, to ensure that the construction work is done in accordance with the contract drawings

and specifications and in conformance with the best practices of the construction trades involved in the project.

8. East Casey should require the Engineer to furnish a copy of the "as-built" drawings and a signed statement that the construction has been satisfactorily completed in accordance with the contract plans and specifications within 60 days of the date of substantial completion of this construction.

9. The financing plan proposed by East Casey is for lawful objects within its corporate purpose, is necessary and appropriate for and consistent with the proper performance of its service to the public and will not impair its ability to perform these services. The financing plan is reasonably necessary and appropriate for such purposes and should, therefore be approved.

10. If under FmHA loan conditions East Casey is notified and granted an option to accept a lower interest rate on the date of closing, East Casey should file the following with the Commission within 30 days of the date of closing: (1) the FmHA notification of the lower interest rate and all correspondence from and to FmHA concerning this notification; (2) a statement of the interest rate accepted from FmHA; (3) amended pages to its bond resolution and an amended amortization schedule based on the different interest rate if a different rate is accepted; and, (4) full documentation of why the lower rate was not accepted showing an analysis of the higher costs associated with the loan over the loan's repayment period in the event the option to accept the lower rate is not taken by East Casey.

11. The rates and charges in Appendix A are the fair, just, and reasonable rates to be charged East Casey in that they should produce annual revenues of \$126,460.

12. Within 30 days of the date of this Order, East Casey should file with this Commission its revised tariff sheets setting out the rates approved herein.

IT IS THEREFORE ORDERED that:

1. East Casey be and it hereby is granted a certificate of public convenience and necessity to proceed with the proposed construction project as set forth in the drawings and specifications of record herein on the condition that service levels be monitored, and corrective action taken in accordance with Finding Number 1 and Finding Number 3 of this Order, and that below ground blow-off hydrants be substituted for the proposed conventional fire hydrants.

2. East Casey's financing plan consisting of an FmHA loan of \$301,000, an FmHA grant of \$693,000, and \$33,000 in contributions from applicants for service be and it hereby is approved.

3. All proceeds from the FmHA loan shall be used only for the purposes stated in East Casey's application.

4. The rates and charges in Appendix A are the fair, just, and reasonable rates and charges to be charged by East Casey on and after the date of this Order.

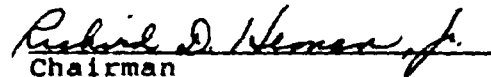
5. Within 30 days of the date of this Order East Casey shall file with this Commission its revised tariff setting out the rates approved herein.

6. East Casey shall comply with all matters set out in Findings 3 through 8 and Finding 10 as if the same were individually so ordered.

Nothing contained herein shall be deemed a warranty of the Commonwealth of Kentucky, or any agency thereof, of the financing herein authorized.

Done at Frankfort, Kentucky, this 23rd day of December, 1987.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 9899 DATED 12/23/87

The following rates and charges are prescribed for the customers in the area served by East Casey County Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

<u>Gallage Block</u>	<u>Rate</u>
First 2,000 gallons	\$9.00 Minimum Bill
Next 3,000 gallons	4.20 per 1,000 gallons
Next 5,000 gallons	4.00 per 1,000 gallons
Next 5,000 gallons	3.80 per 1,000 gallons
Next 5,000 gallons	3.60 per 1,000 gallons
Over 20,000 gallons	3.20 per 1,000 gallons